



RESEARCH PROJECT ON TOBACCO TAXATION IN WEST AFRICA « FISCAL SOLUTIONS FOR OPTIMAL REDUCTION OF SMOKING IN WEST AFRICA »



SENEGAL PROFILE ON TOBACCO TAXATION

Adopt more effective taxation and better information on the prevalence of tobacco products

Context

Smoking is a pandemic that will cause 10 million deaths in 2030 of which 70% in developing countries if nothing is done. To curb this trend, the Framework Convention on Tobacco Control was set up in 2005 with a set of monitoring indicators to assess the progress made by each country. These indicators focus on the monitoring of consumption, the protection of individuals, the prevention of harmful effects, the ban on advertising and a considerable increase in prices through higher taxation. The 15 ECOWAS countries have all ratified this Framework Convention. However, the adoption of laws and measures to make it operational in each member country is timid. One of the reasons for this situation is that the public authorities are generally confronted with a lack of information on the different aspects of tobacco that can inform their decision-making. It was in order to fill this need for evidence that CRES had developed a country profile on smoking in each of the 15 ECOWAS countries for the period 2007 to 2011. It provides reliable information on the market for tobacco products, the tax system applied to them, their importance in the economy and smuggling. CRES updated these country profiles for the period 2011-2016 in six of the 15 ECOWAS countries. The purpose of this policy brief is to share the main stylized facts obtained in the country profile of Senegal between 2012 and 2016.

1. PREVALENCE AND CONSUMPTION OF TOBACCO PRODUCTS

Too few studies on the prevalence of tobacco

The four studies on tobacco conducted in Senegal are those of Global Youth Tobacco Survey (GYTS) (2007) and (2015) are fragmented and often focus on a specific geographic area or

category of the population. The characteristics of these studies reduce the general scope of their results.

A relatively high prevalence rate for young people

The most recent study conducted by the GYTS (2015) in Senegal reveals a prevalence rate of current smoking of 5.4% for the entire population, this rate being 10.7% for men and 0.4 % for women. The results also show that smoking

affects more the following age groups: 45-64 years of age with 8% prevalence rate (16% for men and 0.5% for women), and 25-44 with 6.7% prevalence rate (13.8% for men and 0.2% for women).

2. ANTI-SMOKING MEASURES

Noteworthy progress

In the context of the fight against smoking, Senegal has made significant progress on the fiscal and political levels. On the fiscal side, the following decisions were made:

- the increase in the existing tax rates, in March 2009, with the abolition of the standard category and the introduction of a minimum of perception;
- in December 2012, the increase in the tax rate, the rate of economic cigarettes rising to 40%;

- Standardization of the excise duty rate on cigarettes in November 2014. Now all cigarettes are subject to the rate of 45%, ceiling rate set by the community directive.

At the political level, the efforts made by the government can be analyzed through:

- the adoption by the Parliament in March 2014 of a law related to the manufacture, packaging, labeling, sale and use of tobacco;
- the promulgation in July 2016 of the aforementioned law by the President.

... but the effectiveness of the measures taken seems debatable

Civil society, through associations, is involved in the fight against smoking, by organizing sensitization campaigns on the dangers of tobacco for

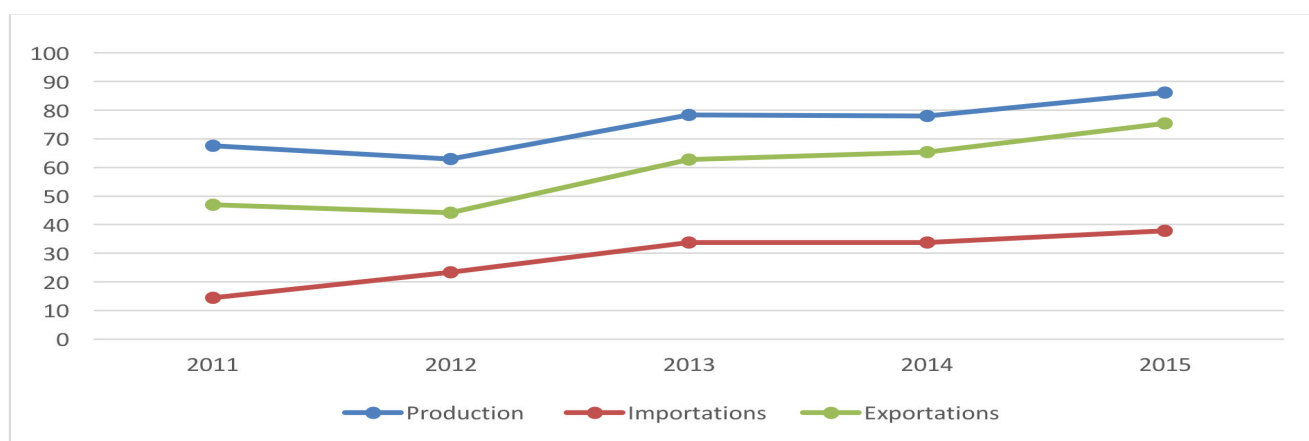
health. For these associations, the government policy on tobacco control is ineffective.

3. A NEGLIGIBLE CONTRIBUTION OF THE TOBACCO INDUSTRY TO THE NATIONAL ECONOMY

The main actors of the tobacco industry in Senegal are the manufacturers of tobacco products, namely the West African Tobacco Factory (MTOA) and Philip M. Manufacturing Senegal (PMMS). Both actors are producers, exporters and importers of tobacco products. However, there are a small number of actors involved as

wholesalers or distributors of tobacco products. Senegal does not almost import smoking tobacco. As for cigarettes containing tobacco, the value of imports is almost negligible compared to that of exports. The country thus remains a net exporter of tobacco and substitutes for manufactured tobacco, over the period 2011-2015.

Graph: evolution of production, imports and exports of tobacco (in billions of FCFA)



Source: based on data from ANSD, Senegal, 2017.

Very low and declining job creation

The tobacco industry in Senegal, made up of two large firms, generates very little employment. Indeed, it has a total number of jobs that hardly

exceeds 530, over the period 2011-2015. This number is all the smaller as it concerns both the numbers of permanent and seasonal workers.

In sum, the evolution of permanent and seasonal tobacco industry employment in Senegal reveals a clear downward trend over the past five years despite a slight recovery in the growth rate at the end of the period. This figure confirms that the tobacco industry is not one of the dynamic industries in terms of creating permanent and seasonal jobs.

The comparison of the volume of permanent and

seasonal employment of the tobacco industry with that of the industry as a whole highlights the very small contribution of the tobacco industry to the overall employment of the industrial sector. This negligible contribution gradually decreases over the period under review. The proportion of employment in the tobacco industry in total employment in the industrial sector decreased from 1.7% in 2011 to 1% in 2014 and 2015.

Table 1: Comparison of the permanent and seasonal workforce of the industry (tobacco and all industrial sector)

Year	2011	2012	2013	2014	2015
Workforce of the Tobacco Industry	530	463	427	441	449
Industry workforce (together)	31756.25	32181	38966	45339	43505
Tobacco Industry workforce / Industry workforce (Overall) (%)	1.7	1.4	1.1	1.0	1.0

Source: ANSD, 2016, authors' calculations.

Fiscal revenue too low relative to Senegal's total revenue

The tobacco industry contributed, on average, up to 18.6 billion FCFA to tax revenues. This total tax contribution of the tobacco industry (Table 1) takes into account all forms of taxation such as corporation tax, specific tax and VAT. This overall contribution is relatively stable in 2013 and 2014, but increases slightly in 2015

and more significantly in 2016.

The total tax contribution of the tobacco industry to Senegal's tax revenues is very low, even negligible over the specified period. Indeed, over this period, the tax contribution decreased from 1.3% in 2013 to 1.1% in 2016.

Table 2: Relative Tax Contribution of the Tobacco Industry (in billion FCFA)

Year	2013	2014	2015	2016
Tax Contribution of the Tobacco Industry (CIT)	17.5	17.9	18.6	20.3
Total tax revenue (RTF)	1342.8	1482.5	1597.1	1779
CIT / RTF (in%)	1.3	1.2	1.2	1.1

Source: DGID, 2016, authors' calculations.

4. TAXATION OF TOBACCO PRODUCTS

Relatively efficient tax system ...

Since November 2014, Senegal has applied a single rate of 45% for all categories of cigarettes on sale in Senegal. This single rate system of 45% is much simpler and has more equity and neutrality. It also remains robust to changes in cigarette prices. In addition, it complies with international standards, UEMOA guidelines and the recommendations of the Technical Report of the WHO Tobacco Free Initiative.

It should be noted that the setting of the factory-gate price by the Minister of Finance is

of paramount importance. In fact, it allows the government not only to guarantee a certain level of revenue, regardless of the public price charged, but also to safeguard against any reduction in the amounts declared by the industries for the calculation of the specific tax. .

The Tax Administration will therefore be better able to control the overall revenue situation and prevent industries from manipulating as they want the declared manufacturer's price.

... but to be improved

Indeed, it is important to note that ad valorem excise duties lead to lower price increases and widen the gaps between brands. Thus, this mode of taxation allows smokers to opt for brands or cheaper products, so that

consumption is conditioned by the price policy of the tobacco industry. Also, the tax measures have had little impact in the fight against the excessive use of tobacco.

Recommendations

The country profile of Senegal reveals a relatively high prevalence for young people and a tax system is still limited to substantially reduce or even eliminate the consumption of tobacco products. The following recommendations can be made to allow Senegal to have a taxation evolving towards the objective of the 70% of tax share in the selling price:

A tax structure that increases the price of all tobacco products and, for a given product, decreases the price gap between cheaper and more expensive brands, reduces opportunities for consumers to turn to brands or products that are cheaper, in response to rising taxes, which maximizes the health impact of higher taxes.

This adjustment mechanism is important because, according to the same WHO report, the nominal rise in taxes - that is, a mark-up that does not take into account inflation - does not make it possible to achieve objectives; the real value of specific taxes on tobacco products decreases as the general level of prices increases. To avoid this problem, governments can put in place an automatic inflation adjustment mechanism, which is only done by Australia and New Zealand so far.

Given the fact that countries such as Senegal, Benin, Togo and Niger have all reached the ceiling rate set by the community directive, the WAEMU Commission should urgently initiate the process of revising this directive by exploring, in addition to ad valorem, the introduction of a specific component, similar to the minimum perception previously experienced by Senegal.

The issue of marking cigarette packets also needs to be examined in order to allow better control of the market. Proposals can also be made to introduce a license for the sale of cigarettes by distributors and retailers to better control the market through accurate identification of distributors and retailers.

It would also be interesting to think about the idea of a possible taxation of the stocks of the manufacturers to avoid an overproduction before a tax increase. The Tax Administration would then have to record the level of stocks in the manufacturing companies and distributors before the increase and could require the latter to pay the tax in case of difference.

The electronic control of the production is also proposed for a better monitoring of the production.

The Research Center for International Development (IDRC) has funded the Consortium for Economic and Social Research (CRES) to conduct an action research on the taxation of tobacco products. As part of this project, the country profile of Senegal is elaborated by a team composed of Professor Seydi Ababacar DIENG of the Cheikh Anta Diop University of Dakar and Assane DIOUF of the General Tax Directorate of Senegal. This policy note is drawn from this country profile by Seydi Ababacar DIENG.